CPB
The world’s oldest fiscal watchdog

Coen Teulings

• London
  May 23 2012
CPB Director Teulings says: “relevant parts of Brussels do want to soften the austerity pain for the Netherlands.

de Volkskrant, March 27th 2012

- Recent plea in FT for structural reform, not immediate austerity
- Fiscal Compact
- Common experience with the Swedish fiscal council

Eurozone countries must not be forced to meet deficit targets
Formal position

- Just a department within Ministry of Economic Affairs
  - Not an agency or independent body
  - Director = civil servant, appointed by the cabinet
  - Both different from OBR
- Staff of 100-150
  - Large compared to other countries
  - ... but useful
  - Combines tasks of OBR, IFS and NIESR
Public reputation / rules of conduct

- Generally accepted as independent source
- Day to day in the press
- Evaluation of election platforms
- Works also for opposition parties
- Recently: accessible for parliament (maybe dangerous)
- I never experience any pressure on our forecast
- We try to be ahead of the policy debate
- Leave convincing voters to political parties
- Only arbitrator on request (actually, quite often)
Even then

- Regular attempts to influence our stance
- By ministers
- ... or civil servants
  - On behalf of their political bosses
  - ... or on their own behalf
- Gaming our models
  - E.g.: impact assessment of last consolidation package
- Poses demands on
  - Corporate culture of CPB
  - Being director is a tough job
Election cycle (4 years)

- Mid term forecast
  - Including an analysis of ageing and sustainability
- Advisory Group on Fiscal Policy
  - Gives advice on budgetary goals
- CPB analysis of election platforms
- Elections
- Negotiations on new coalition agreement
  - Ceilings for expenditure in real terms
  - Half way deficits should be compensated
  - Tax rates and premiums on revenue side
  - Automatic stabilization on revenue side (tillsofar?!)
Evaluation election platforms

- On request political parties, almost all participate (different from IFS)
- Merits
  - Same underlying economic scenario
  - Evaluation by identical standards
  - Makes programs comparable
  - Improves technicalities in proposals
  - Deeply suspicious regarding free lunches
  - Checks practical and juridical feasibility
  - Starting point bargaining for new government
- Issues: cutting on civil service,
Summary overview of the effects of the election platforms of 9 different political parties (changes relative to baseline, unless otherwise mentioned)

<table>
<thead>
<tr>
<th></th>
<th>CDA</th>
<th>PvdA</th>
<th>SP</th>
<th>VVD</th>
<th>PVV</th>
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</thead>
<tbody>
<tr>
<td>Improvement EMU-balance 2015</td>
<td>18</td>
<td>11</td>
<td>10</td>
<td>20</td>
<td>15¾</td>
</tr>
<tr>
<td>Sustainability of public finances</td>
<td>33</td>
<td>31</td>
<td>16</td>
<td>39</td>
<td>17</td>
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<tr>
<td>Structural employment (%)</td>
<td>4</td>
<td>2½</td>
<td>–1</td>
<td>5¾</td>
<td>¼</td>
</tr>
<tr>
<td>Quality of transport</td>
<td>¾</td>
<td>¾</td>
<td>-¼</td>
<td>¼</td>
<td>¼</td>
</tr>
<tr>
<td>Car use (%)</td>
<td>10 -15</td>
<td>10-15</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Public transport use (%)</td>
<td>5-10</td>
<td>5-10</td>
<td>+ 5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Reduction of greenhouse gases (Mton Co2)</td>
<td>36</td>
<td>44</td>
<td>21</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Effect education (%)</td>
<td>2¼</td>
<td>4¾</td>
<td>¼</td>
<td>4</td>
<td>¼</td>
</tr>
<tr>
<td>Housing market (welfare gains % gdp)</td>
<td>0.1</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
<td>–0.1</td>
</tr>
<tr>
<td>Health care, (employment, 2015, thousand)</td>
<td>-10</td>
<td>-15</td>
<td>+15</td>
<td>-50</td>
<td>+10</td>
</tr>
</tbody>
</table>
Evaluation election platforms II

Objections

• Constrains political debate (e.g. juridical feasibility)
• Bias in debate to proposal that are easily evaluated
  • Institutional reform in health care
  • Compare free lunch skepticism
• Favors short run Keynesian above structural effects
  • Solution: e.g. Mimic model
  • Lines up to experience: structural reform takes time
  • Compare ‘80 in Netherlands, ‘90 in Sweden
• Broad remit, long history in the Netherlands
  • Wage policies during ‘70
  • CBA for Dutch railways
Reassessing role of macro model

- Excess attention for Keynesian instead of structural effects
- Solution: separate micro/partial equilibrium model

- Insufficient flexibility of model: e.g. financial crisis
- Simultaneity bias in estimation/weak empirical underpinning
- Lost linkage to scientific literature
  - Global phenomenon: IMF, OECD, other countries
- DSGE is even more inflexible/limited success in forecasting
- Standard VARs are too small to be serious
- Including broader set of variables (e.g. consumer confidence)
- Solution: Bayesian VARs?
Lessons and implications (Romer, IMF)

Fiscal Policy lessons:
• Changes in fiscal policy have large effects in short run
• Unsustainable long-run budget deficits eventually lead to ruin

Implications for Policy
• Immediate austerity is likely to be counterproductive
• Back-loaded austerity is needed
• Strong countries should be pursuing expansionary policy
• Structural reforms are needed, but benefits are long-term
  • Reforms are not softies, it is tough! (compare FT)
• Monetary policy needs to be more helpful
Recent Dutch experience

- Triple A status till so far, relatively low interest rates
- Huge balance of payment surplus
- Despite substantial consolidation, deficit 2013 up to 4.6%
- Call for additional austerity to meet 3% target EU
- Plea CBP to the contrary, no impact on public opinion
- Why?
  - Excess commitment politicians to European norms
  - Experience of Keynesian policies in ‘80
  - Inadequacy of economist advice: if we have to postpone consolidation today, why doing it tomorrow
- Recent effort CPB to answer that question
Reforms and austerity are substitutes!

- Government debt is a claim on future generations
- The same applies for constraints on competition
- Tradability of claims assigns all future rents to current insiders
- Examples
  - Mortgage deduction and house prices
    even balanced budget abolishment favors future gen.!
  - Price of a cab license
  - Goodwill on professional practices
- Prioritizing needed: you cannot hit current generation always
- Reform is not for softies
Debt bias in politics?

Research Adi Brender (Bank of Israel)
- only in new democracies (<4 elections)
- in old democracies
  - voters are wiser
  - politicians do not gain from political fiscal cycle
- Fits recent Dutch experience

- Fiscal councils should be involved in structural reform!
- That requires some staff! (e.g. wage policy in ‘70, Mimic ‘00)
Lesson I: towards structural reforms

• Government debt is claim on future generations
• The same applies for constraints on competition
• Tradability of claims assigns all future rents to current insiders
• Examples
  • Mortgage deduction and house prices
    - even balanced budget abolishment favors future gen.!
  • Price of a cab license
  • Goodwill on professional practices
• Prioritizing needed:
  you cannot hit current generation on all dimensions
• Fiscal watchdogs should enter debate on structural reforms
Lesson II: broad remit

• Scope of activities should not be limited to fiscal policy
  • Contribution to a common understanding of trade offs
  • Different from mandate OBR
• Effectiveness depends on demarcation roles watchdog-politics
• Rethinking demarcation fiscal – monetary policy
  • Demarcation politics - technocracy
  • Rearranging tasks towards technocrats
  • In particular in Euro area, but against populist outcry
• Welfare theory provides little guidance for demarcation line
Lesson III: independence

- Reputation of quality is crucial; building it takes time
- Closeness of ties to government is trade off
  - Better, policy relevant information
  - Less independence